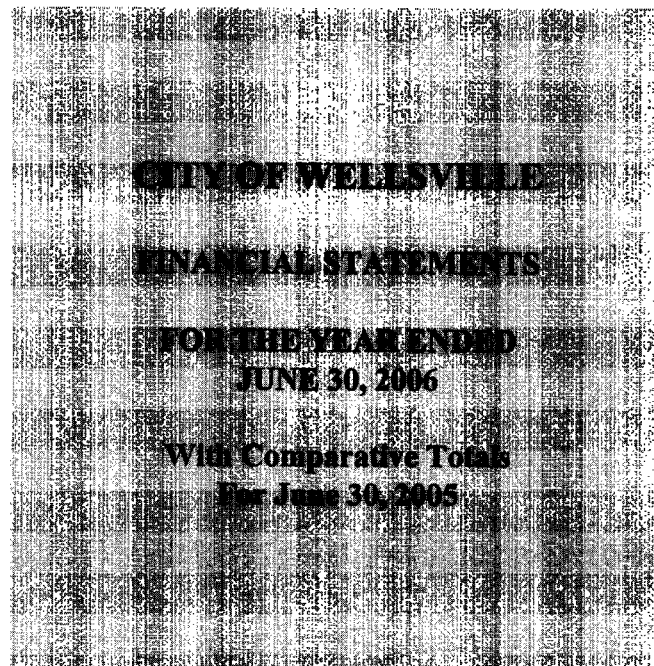




Peterson
Allred
Jackson



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TABLE OF CONTENTS

	<u>Page</u>
<u>INTRODUCTORY SECTION:</u>	
Letter of transmittal	4
<u>FINANCIAL SECTION:</u>	
Independent auditor's report	8
Management's Discussion and Analysis	10
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	16
Statement of Activities	17
Fund Financial Statements:	
Balance Sheet - Governmental Funds	18
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	21
Statement of Net Assets - Proprietary Funds	23
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	24
Statement of Cash Flows - Proprietary Funds	25
Notes to Financial Statements	26
<u>SUPPLEMENTAL INFORMATION:</u>	
Combining Balance Sheet - Nonmajor Governmental Funds	45
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor funds	46
Schedule of Impact Fees	47
Report on Compliance and Internal Control	48
State Legal Compliance Report	50
Management letter with responses	52

INTRODUCTORY SECTION



WELLSVILLE CITY CORPORATION

75 East Main
P.O. Box 6
Wellsville, Utah 84339
Phone: 435-245-3686
Fax: 435-245-7958

MAYOR Ruth P. Maughan
CITY COUNCIL
Thomas G. Bailey
Ron Case
Lynn P. Cooper
Marcene Parker
Dick Wells

DON HARTLE
City Manager
City Recorder
LEESA M. COOPER
City Treasurer

October 24, 2006

Wellsville City Council
Wellsville, Utah

Council:

It is with great pleasure that the financial statements for the City of Wellsville for the year ended June 30, 2006, is presented.

In addition to the fund financial information currently presented in the City's financial statements, this report includes government-wide financial statements. The government-wide financial statements include a Statement of Net Assets that provides the total net assets of the City including all capital assets (including infrastructure) and the Statement of Activities that shows the cost of providing government services.

State law requires that all local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. These financial statements are hereby issued and submitted to you for the fiscal year ended June 30, 2006, in accordance with these requirements.

This report consists of management's representations concerning the finances of the City of Wellsville. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management has established an internal control framework that is designed to both protect the assets of the City from loss, theft, or misuse and to allow for the compiling of sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's internal control procedures have been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of management's knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Wellsville's financial statements have been audited by Peterson Allred Jackson, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Wellsville for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Wellsville's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

I wish to express my appreciation to all members of the City who assisted and contributed to the preparation of this report.

Respectfully submitted,

A handwritten signature in cursive script, reading "Ruth P. Maughan".

Mayor Ruth P. Maughan
City of Wellsville

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Wellsville
Wellsville, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wellsville, Utah (the City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated October 24, 2006 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results for our audit.

The Management's Discussion and Analysis on pages 10-14, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund statements and Schedule of Impact Fees listed in the table of contents are presented for purposes of additional analysis of the financial statements of the City. Such information has been subjected to auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Peterson Alfred Jackson

October 24, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Wellsville, we offer readers of the City of Wellsville's financial statements this narrative overview and analysis of the financial activities of the City of Wellsville for the fiscal year ended June 30, 2006.

FINANCIAL HIGHLIGHTS

- The total net assets of the City of Wellsville increased approximately 33% to \$9,568,774.
- The total net assets of \$9,568,774 is made up of \$7,771,859 in capital assets net of related debt and \$1,796,915 in other net assets.
- Total long-term liabilities of the City were reduced by \$144,000 of principal payments.
- Business-type activities total net assets increased \$999,209.

REPORTING THE CITY AS A WHOLE

This discussion and analysis is intended to serve as an introduction to the City of Wellsville's basic financial statements. The City of Wellsville's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the City of Wellsville's finances, in a manner similar to a private-sector business.

- The statement of net assets presents information on all of the City of Wellsville's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Wellsville is improving or deteriorating. However, you will also need to consider other nonfinancial factors.
- The statement of activities presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of the City of Wellsville that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The government-wide financial statements can be found on pages 16 & 17 of this report.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Wellsville also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

- Governmental funds - These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The only major governmental fund (as determined by generally accepted accounting principles) is the General Fund. The balance of the governmental funds are determined to be nonmajor and are included in the combining statements within this report.

- Proprietary funds - The City of Wellsville maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Wellsville uses enterprise funds to account for its Water Utility and Wastewater Collection Utility.

As determined by generally accepted accounting principles, all enterprise funds meet the criteria of major fund classification.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Wellsville, assets exceed liabilities by \$9,568,774.

By far the largest portion of the City of Wellsville's net assets (81%) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

STATEMENT OF NET ASSETS

	Governmental Activities		Business-type Activities	
	2006	2005	2006	2005
Current and other assets	\$ 1,290,680	\$ 1,277,504	\$ 814,932	\$ 605,776
Capital assets	3,140,253	1,887,549	5,735,606	5,070,279
Total assets	4,430,933	3,165,053	6,550,538	5,676,055
Long-term debt outstanding	66,000	82,000	1,038,000	1,166,000
Other liabilities	279,742	352,861	28,955	25,681
Total liabilities	345,742	434,861	1,066,955	1,191,681
Net assets:				
Invested in capital assets, net of debt	3,074,253	1,805,549	4,697,606	3,904,279
Restricted	652,703	674,896	359,232	273,679
Unrestricted	358,235	249,747	426,745	306,416
Total net assets	\$ 4,085,191	\$ 2,730,192	\$ 5,483,583	\$ 4,484,374

CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities	
	2006	2005	2006	2005
Revenues:				
Program revenues:				
Charges for services	\$ 611,435	\$ 490,860	\$ 773,355	\$ 662,407
Operating grants & contributions	5,438	27,817	-	-
Capital grants & contributions	1,280,131	167,702	841,993	-
General revenues:				
Property taxes	160,201	165,850	-	-
Other taxes	455,550	403,625	-	-
Investment income	36,577	17,335	27,116	13,626
Other revenues	3,023	2,965	-	-
Total revenues	2,552,355	1,276,154	1,642,464	676,033
Expenses:				
General government	355,615	281,837	-	-
Public Safety	141,155	136,703	-	-
Highways/public improvements	442,703	383,093	-	-
Parks & recreation	132,168	104,622	-	-
Court	125,715	97,913	-	-
Water	-	-	404,500	403,261
Wastewater collection	-	-	238,755	202,561
Total expenses	1,197,356	1,004,168	643,255	605,822
Increase in net assets before transfers	1,354,999	271,986	999,209	70,211
Transfers	-	-	-	-
Increase (decrease) in net assets	1,354,999	271,986	999,209	70,211
Net assets, beginning	2,730,192	2,458,206	4,484,374	4,414,163
Net assets, ending	\$ 4,085,191	\$ 2,730,192	\$ 5,483,583	\$ 4,484,374

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

As of the June 30, 2006, the City's governmental funds (General and Capital Projects) reported combined fund balances of \$1,010,938. This represents an increase of \$86,295 (9%) over last year's ending balances.

The General Fund is the chief operating fund of the City. All activities which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses are accounted for in this fund.

Taxes continue to be the largest source of revenue in the General Fund and represent 42% of total general fund revenues. The largest element of taxes is sales taxes as it has been for the last several years. It represents 40% of total tax revenues and represents 17% of total general fund revenues. This compares with 18% in the prior fiscal year ended June 30, 2005.

As stated earlier, the City maintains several enterprise funds to account for the business-type activities of the City. The separate fund statements included in this report provides the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

Significant changes in the governmental funds include an increase in revenues due to continuing building and growth.

Significant changes in business-type activities include bond principal payments of \$128,000.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year the General Fund original budget was amended from an original budget expenditure total of \$1,144,612 to a final budget of \$1,641,612 (43%). These increases were made to take advantage of revenues and expense being higher than originally anticipated for administration, streets, and capital projects, sanitation, and court.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets- The City of Wellsville's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$8,875,859 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, infrastructure (streets, sidewalks, etc.), and machinery and equipment. The total increase in the City's investment in fixed assets for the current year was 27% (due to new purchases exceeding depreciation).

Major capital asset events during the current fiscal year included the following:

- \$1,207,683 for street and sidewalk improvements.
- \$130,781 for park restroom improvements.
- \$366,283 for water improvements.
- \$510,366 for sewer improvements.

CITY OF WELLSVILLE'S CAPITAL ASSETS

	Governmental Activities	Business-type Activities
Land	\$ 520,563	\$ 553,661
Buildings	401,508	226,393
Improvements	393,565	8,207,802
Infrastructure	5,057,597	—
Machinery & equipment	715,534	264,271
Construction in progress	—	—
Less: Accumulated depreciation	<u>(3,948,514)</u>	<u>(3,516,521)</u>
Total	<u>\$ 3,140,253</u>	<u>\$ 5,735,606</u>

Additional information on the City's capital assets can be found in the footnotes to this financial report.

Long-term debt - At June 30, 2006, the City had total bonded debt outstanding of \$1,166,000. Of this amount \$91,000 is considered to be general obligation debt and backed by the full faith and credit of the City; and the remainder of \$1,034,000 is debt which is secured solely by specific revenue sources (i.e., revenue bonds).

CITY OF WELLSVILLE'S OUTSTANDING DEBT

General obligation bonds- sewer and water	\$ 91,000
Revenue bonds	947,000
General fund note	<u>66,000</u>
Total outstanding debt	<u>\$ 1,166,000</u>

The City's total debt decreased by \$144,000 during the fiscal year.

Additional information on the outstanding debt obligations of the City can be found in the footnotes to this report.

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CITY OF WELLSVILLE
STATEMENT OF NET ASSETS
JUNE 30, 2006
With Comparative Totals for 2005

ASSETS	Governmental	Business-type	Memorandum Totals	
	Activities	Activities	2006	2005
Cash	\$ 331,795	\$ 362,153	\$ 693,948	\$ 515,232
Account receivable	110,904	73,656	184,560	169,545
Taxes receivable	188,648	-	188,648	220,220
Restricted taxes receivable	27,188	-	27,188	22,806
Bond discounts	-	19,891	19,891	23,092
Restricted cash	632,145	359,232	991,377	932,385
Capital assets				
Land and water rights	520,563	553,661	1,074,224	1,046,296
Buildings	401,508	226,393	627,901	497,120
Improvements	393,565	8,207,802	8,601,367	7,698,673
Infrastructure	5,057,597	-	5,057,597	3,849,914
Machinery & equipment	715,534	264,271	979,805	948,501
Less: Accumulated depreciation	(3,948,514)	(3,516,521)	(7,465,035)	(7,082,676)
Total assets	<u>\$ 4,430,933</u>	<u>\$ 6,550,538</u>	<u>\$ 10,981,471</u>	<u>\$ 8,841,108</u>
LIABILITIES				
Accounts payable	113,112	16,829	129,941	168,638
Interest payable	-	12,126	12,126	13,288
Contractor retainage/escrow	6,630	-	6,630	6,616
Bonds payable:				
Due within one year	10,000	134,000	144,000	144,000
Due in more than one year	56,000	904,000	960,000	1,104,000
Deferred revenue	160,000	-	160,000	190,000
Total liabilities	<u>345,742</u>	<u>1,066,955</u>	<u>1,412,697</u>	<u>1,626,542</u>
NET ASSETS				
Invested in capital assets, net of related debt	3,074,253	4,697,606	7,771,859	5,709,828
Restricted for:				
Debt service	-	202,631	202,631	195,179
Roads and city improvements	652,703	156,601	809,304	753,396
Unrestricted	358,235	426,745	784,980	556,163
Total net assets	<u>\$ 4,085,191</u>	<u>\$ 5,483,583</u>	<u>\$ 9,568,774</u>	<u>\$ 7,214,566</u>

The notes to the financial statements are an integral part of this statement.

CITY OF WELLSVILLE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006
With Comparative Totals for 2005

	Program Revenues			Net Governmental Activities	Business-type Activities	Memorandum Totals	
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions		2006	2005
Governmental activities:							
General government	\$ 355,615	\$ 82,483	\$ -	\$ -	\$ (273,132)	\$ (273,132)	\$ (208,763)
Public Safety	141,155	51,253	5,438	-	(84,464)	(84,464)	(97,023)
Highways & public improvements	442,703	162,309	-	1,230,773	950,379	950,379	(78,820)
Parks, recreation & public property	132,168	119,790	-	49,358	36,980	36,980	(14,804)
Court	125,715	195,600	-	-	69,885	69,885	81,621
Total governmental activities	1,197,356	611,435	5,438	1,280,131	699,648	699,648	(317,789)
Business-type activities:							
Water	404,500	509,720	-	362,210	-	467,430	24,091
Wastewater collection	238,755	263,635	-	479,783	-	504,663	32,494
Total business-type activities	643,255	773,355	-	841,993	972,093	972,093	56,585
General Revenues:							
Taxes:							
Property taxes levied for general purposes					160,201	160,201	165,850
Other taxes					157,974	157,974	123,368
Franchise taxes					50,614	50,614	54,447
General sales taxes & highway sales taxes					246,962	246,962	225,810
Business licenses					3,023	3,023	2,965
Investment income					36,577	27,116	30,961
Transfers					-	-	-
Total general revenues & transfers					655,351	682,467	603,401
Change in net assets					1,354,999	2,354,208	342,197
Net assets - beginning					2,730,192	4,484,374	6,872,369
Net assets - ending					\$ 4,085,191	\$ 9,568,774	\$ 7,214,566

The notes to the financial statements are an integral part of this statement.

CITY OF WELLSVILLE
GOVERNMENTAL FUNDS TYPE
BALANCE SHEET
JUNE 30, 2006
With Comparative Totals for 2005

			Memorandum Totals	
	General	Other Governmental Funds	Governmental Funds 2006	Governmental Funds 2005
ASSETS				
Cash	\$ 331,795	\$ -	\$ 331,795	\$ 271,374
Accounts receivable	110,904	-	110,904	104,398
Taxes receivable	188,648	-	188,648	220,220
Restricted assets:				
Cash	377,556	254,589	632,145	658,706
Taxes receivable	27,188	-	27,188	22,806
Total assets	\$ 1,036,091	\$ 254,589	\$ 1,290,680	\$ 1,277,504
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 113,112	\$ -	\$ 113,112	\$ 156,245
Contractor retainage/escrow	6,630	-	6,630	6,616
Deferred revenue	160,000	-	160,000	190,000
Total liabilities	279,742	-	279,742	352,861
Fund Balance:				
Reserved for roads	261,231	-	261,231	247,197
Reserved for first responders	2,140	-	2,140	2,051
Reserved for cemetery	52,613	-	52,613	46,288
Reserved for Capital projects fund	-	254,589	254,589	207,509
Reserved for impact fees	82,130	-	82,130	171,851
Unreserved - undesignated	358,235	-	358,235	249,747
Total fund balance	756,349	254,589	1,010,938	924,643
Total liabilities and fund balance	\$ 1,036,091	\$ 254,589		
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			3,140,253	1,887,549
Long term liabilities, including notes payable are not due and payable in the current period and therefore are not reported in the funds.			(66,000)	(82,000)
Net assets reconciled to the Statement of Activities			\$ 4,085,191	\$ 2,730,192

The notes to the financial statements are an integral part of this statement.

**CITY OF WELLSVILLE
GOVERNMENTAL FUNDS TYPE
STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006
With Comparative Totals for 2005**

			Memorandum Totals	
	General	Other Governmental Funds	Governmental Funds 2006	Governmental Funds 2005
Revenues:				
Taxes & special assessments	\$ 615,751	\$ -	\$ 615,751	\$ 569,475
Licenses and permits	22,760	-	22,760	13,585
Intergovernmental	225,173	-	225,173	198,746
Charges for services	364,025	-	364,025	264,470
Fines & forfeitures	195,600	-	195,600	179,534
Investment income	27,497	9,080	36,577	17,335
Miscellaneous	28,500	-	28,500	33,009
Total revenues	<u>1,479,306</u>	<u>9,080</u>	<u>1,488,386</u>	<u>1,276,154</u>
Expenditures:				
Current:				
General government	483,254	-	483,254	356,731
Public safety	124,414	-	124,414	121,041
Highways & public improvements	528,972	-	528,972	489,777
Parks, recreation & public property	265,451	-	265,451	107,464
Total expenditures	<u>1,402,091</u>	<u>-</u>	<u>1,402,091</u>	<u>1,075,013</u>
Excess (deficiency) of revenues over expenditures	77,215	9,080	86,295	201,141
Other financing sources (uses):				
Transfers in (out)	<u>(38,000)</u>	<u>38,000</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>(38,000)</u>	<u>38,000</u>	<u>-</u>	<u>-</u>
Net change in fund balances	39,215	47,080	86,295	201,141
Fund balances, beginning of year	<u>717,134</u>	<u>207,509</u>	<u>924,643</u>	<u>723,502</u>
Fund balances, end of year	<u>\$ 756,349</u>	<u>\$ 254,589</u>	<u>\$ 1,010,938</u>	<u>\$ 924,643</u>

The notes to the financial statements are an integral part of this statement.

CITY OF WELLSVILLE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds	\$ 86,295
--	-----------

Amounts reported for governmental activities in the statement of activities differs from the amounts reported in the statement of revenues, expenditures, and changes in fund balance because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period in addition to contributed capital.	188,735
---	---------

Governmental funds received capital contributions for capital assets during the year.	1,063,969
---	-----------

Governmental funds report debt service payments as expenditures. In the statement of activities, the principal payments reduce the amount of the liability.	<div style="border-top: 1px solid black; display: inline-block;">16,000</div>
---	---

Change in net assets of governmental activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block;">\$ 1,354,999</div>
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**CITY OF WELLSVILLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2006**

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
REVENUES:				
Taxes:				
General property taxes	\$ 140,922	\$ 159,297	\$ 160,201	\$ 904
General sales & use taxes	185,000	244,774	246,962	2,188
Franchise taxes	27,000	52,938	50,614	(2,324)
Energy & use tax	77,000	156,462	157,974	1,512
Total taxes	<u>429,922</u>	<u>613,471</u>	<u>615,751</u>	<u>2,280</u>
Licenses & permits:				
Business licenses & permits	2,500	3,023	3,023	-
Non-business licenses & permits	6,500	19,204	19,737	533
Total licenses & permits	<u>9,000</u>	<u>22,227</u>	<u>22,760</u>	<u>533</u>
Intergovernmental revenues:				
Class "C" roads	110,000	124,013	128,395	4,382
State liquor allotment	1,500	2,582	2,583	1
First responder reimbursement	500	3,573	3,573	-
State/local grants	43,000	88,242	90,622	2,380
Total intergovernmental revenues	<u>155,000</u>	<u>218,410</u>	<u>225,173</u>	<u>6,763</u>
Charges for services:				
Sanitation	156,850	160,871	162,309	1,438
Cemetery/parks	8,500	40,560	34,430	(6,130)
Communication center	22,200	22,395	22,505	110
Planning and zoning	23,100	34,245	34,246	1
County fire contract	5,400	13,000	21,039	8,039
Impact fees	30,510	89,496	89,496	-
Total charges for services	<u>246,560</u>	<u>360,567</u>	<u>364,025</u>	<u>3,458</u>
Fines & forfeitures:				
Court fines	100,200	196,400	195,600	(800)
Miscellaneous:				
Interest	6,000	26,928	27,497	569
History books	500	1,454	1,534	80
Lease revenue	14,540	14,710	13,971	(739)
Other	32,690	3,111	12,995	9,884
Transfers	150,200	184,334	-	(184,334)
Total miscellaneous	<u>203,930</u>	<u>230,537</u>	<u>55,997</u>	<u>(174,540)</u>
Total revenues	<u>\$ 1,144,612</u>	<u>\$ 1,641,612</u>	<u>\$ 1,479,306</u>	<u>\$ (162,306)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF WELLSVILLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
(CONTINUED)
YEAR ENDED JUNE 30, 2006

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>FINAL BUDGET</u>
				<u>POSITIVE (NEGATIVE)</u>
EXPENDITURES				
General government:				
Mayor and council	\$ 19,408	\$ 16,567	\$ 17,652	\$ (1,085)
Administration	186,582	232,090	203,164	28,926
Court	76,069	132,660	125,715	6,945
Building & grounds	21,094	22,570	22,201	369
Planning and zoning	40,700	87,190	81,190	6,000
Capital outlay	-	-	33,332	(33,332)
Total general government	<u>343,853</u>	<u>491,077</u>	<u>483,254</u>	<u>7,823</u>
Public safety:				
Police	43,828	44,911	44,911	-
Communication center	22,200	24,380	22,480	1,900
Fire	26,808	32,344	32,538	(194)
First responder	16,474	16,474	16,059	415
Animal control	8,676	9,005	8,426	579
Capital outlay	-	-	-	-
Total public safety	<u>117,986</u>	<u>127,114</u>	<u>124,414</u>	<u>2,700</u>
Highways & public improvements:				
Streets	148,767	304,270	189,411	114,859
Capital outlay	115,500	115,500	182,142	(66,642)
Sanitation	152,750	170,920	157,419	13,501
Total highways & improvements	<u>417,017</u>	<u>590,690</u>	<u>528,972</u>	<u>61,718</u>
Parks, recreation & public property:				
Parks and open spaces	23,050	57,992	43,565	14,427
Cemetery	16,096	18,898	18,580	318
Community progress	38,900	53,524	52,525	999
Capital outlay	137,200	137,200	150,781	(13,581)
Total parks, recreation & public property	<u>215,246</u>	<u>267,614</u>	<u>265,451</u>	<u>2,163</u>
Transfers	<u>50,510</u>	<u>165,117</u>	<u>38,000</u>	<u>127,117</u>
TOTAL EXPENDITURES & OTHER USES	<u>1,144,612</u>	<u>1,641,612</u>	<u>1,440,091</u>	<u>201,521</u>
Net change in fund balance	-	-	39,215	39,215
Fund balance at beginning of year	<u>717,134</u>	<u>717,134</u>	<u>717,134</u>	<u>-</u>
Fund balance at end of year	<u>\$ 717,134</u>	<u>\$ 717,134</u>	<u>\$ 756,349</u>	<u>\$ 39,215</u>

The notes to the financial statements are an integral part of this statement.

CITY OF WELLSVILLE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006
With Comparative Totals for 2005

	WATER UTILITIES	WASTEWATER COLLECTION	Memorandum Totals	
			2006	2005
ASSETS				
Current assets:				
Cash	\$ 196,465	\$ 165,688	\$ 362,153	\$ 243,858
Accounts receivable	49,660	23,996	73,656	65,147
Bond discounts	16,736	3,155	19,891	23,092
Restricted cash	203,404	155,828	359,232	273,679
Total current assets	<u>466,265</u>	<u>348,667</u>	<u>814,932</u>	<u>605,776</u>
Capital assets				
Land and water rights	269,618	284,043	553,661	526,275
Buildings	151,645	74,748	226,393	226,393
Improvements other than building	5,195,259	3,012,543	8,207,802	7,331,153
Equipment	157,997	106,274	264,271	277,398
Less accumulated depreciation	<u>(2,135,584)</u>	<u>(1,380,937)</u>	<u>(3,516,521)</u>	<u>(3,290,940)</u>
Total capital assets	<u>3,638,935</u>	<u>2,096,671</u>	<u>5,735,606</u>	<u>5,070,279</u>
TOTAL ASSETS	<u>4,105,200</u>	<u>2,445,338</u>	<u>6,550,538</u>	<u>5,676,055</u>
LIABILITIES				
Current liabilities:				
Accounts payable	2,868	13,961	16,829	12,393
Interest payable	<u>11,710</u>	<u>416</u>	<u>12,126</u>	<u>13,288</u>
Total current liabilities	<u>14,578</u>	<u>14,377</u>	<u>28,955</u>	<u>25,681</u>
Long-term liabilities:				
Bonds payable - due within a year	89,632	44,368	134,000	128,000
Due in more than one year	<u>829,516</u>	<u>74,484</u>	<u>904,000</u>	<u>1,038,000</u>
Total long-term liabilities	<u>919,148</u>	<u>118,852</u>	<u>1,038,000</u>	<u>1,166,000</u>
Total liabilities	<u>933,726</u>	<u>133,229</u>	<u>1,066,955</u>	<u>1,191,681</u>
NET ASSETS				
Invested in capital assets, net of related debt	2,719,787	1,977,819	4,697,606	3,904,279
Restricted	203,404	155,828	359,232	273,679
Unrestricted	<u>248,283</u>	<u>178,462</u>	<u>426,745</u>	<u>306,416</u>
Total net assets	<u>\$ 3,171,474</u>	<u>\$ 2,312,109</u>	<u>\$ 5,483,583</u>	<u>\$ 4,484,374</u>

The notes to the financial statements are an integral part of this statement.

CITY OF WELLSVILLE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2006
With Comparative Totals for 2005

	WATER UTILITIES	WASTEWATER COLLECTION	Memorandum Totals	
			2006	2005
OPERATING REVENUES:				
Charges for services	\$ 506,009	\$ 260,725	\$ 766,734	\$ 650,158
Other operating revenues	3,711	2,910	6,621	12,249
Total operating revenues	509,720	263,635	773,355	662,407
OPERATING EXPENSES				
Salary and wages	110,215	84,263	194,478	176,579
Other operating expenses	45,907	34,983	80,890	101,124
Supplies	32,039	33,478	65,517	87,296
Depreciation	184,064	77,621	261,685	197,739
Amortization	1,954	1,247	3,201	3,200
Total operating expenses	374,179	231,592	605,771	565,938
Operating income	135,541	32,043	167,584	96,469
NON-OPERATING REVENUES (EXPENSES)				
Interest income	10,533	16,583	27,116	13,626
Contributed capital	362,210	479,783	841,993	-
Loss on sale of asset	(404)	(404)	(808)	-
Interest charges	(29,917)	(6,759)	(36,676)	(39,884)
Total non-operating revenue (expense)	342,422	489,203	831,625	(26,258)
Change in net assets	477,963	521,246	999,209	70,211
Total net assets - beginning	2,693,511	1,790,863	4,484,374	4,414,163
Total net assets -ending	\$ 3,171,474	\$ 2,312,109	\$ 5,483,583	\$ 4,484,374

The notes to the financial statements are an integral part of this statement.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006
With Comparative Totals for 2005

	WATER UTILITIES	WASTEWATER COLLECTION	Memorandum Totals	
			2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 502,314	\$ 262,532	\$ 764,846	\$ 666,058
Payments to suppliers	(87,554)	(55,579)	(143,133)	(207,948)
Payments to employees	(110,215)	(84,263)	(194,478)	(176,579)
Net cash provided (used) by operating activities	304,545	122,690	427,235	281,531
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of capital assets	(15,269)	(70,558)	(85,827)	(408,345)
Principal paid on capital debt	(85,748)	(42,252)	(128,000)	(103,000)
Interest paid on capital debt	(29,917)	(6,759)	(36,676)	(39,884)
Net cash provided (used) by capital and related financing activities	(130,934)	(119,569)	(250,503)	(551,229)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	10,533	16,583	27,116	13,626
Net increase (decrease) in cash and cash equivalents	184,144	19,704	203,848	(256,072)
Cash and equivalents at beginning of year	215,725	301,812	517,537	773,609
Cash and equivalents at end of year	\$ 399,869	\$ 321,516	\$ 721,385	\$ 517,537
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income	\$ 135,541	\$ 32,043	\$ 167,584	\$ 96,469
Adjustments to reconcile net income from operations to net cash provided by operating activities:				
Depreciation/amortization	186,018	78,868	264,886	200,939
Changes in assets & liabilities:				
Decrease (increase) in receivables	(7,406)	(1,103)	(8,509)	3,651
Increase (decrease) in accruals	(9,608)	12,882	3,274	(19,528)
Total adjustments	169,004	90,647	259,651	185,062
Net cash provided (used) by operating activities:	\$ 304,545	\$ 122,690	\$ 427,235	\$ 281,531

Non cash activities:

The water fund and sewer fund acquired \$362,210 and \$479,783, respectively in capital assets through capital subdivision contributions.

CITY OF WELLSVILLE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Note 1: Summary of significant accounting policies

Reporting entity

The basic financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

Financial reporting is based upon all GASB pronouncements, as well as the FASB Statements and Interpretations, APB Opinions and Accounting Research Bulletins that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989 are not followed in the preparations of the accompanying financial statements.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. Interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those which are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as

revenue as soon as all eligibility requirements imposed by the provider have been met. The City applies expenses for restricted resources first when both restricted and unrestricted net assets are available.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of the related liability, rather than an expenditure in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt-services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes, franchise taxes and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenues are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The Water Utility accounts for the activities of the City's water production, treatment, and distribution operations.

The Wastewater Collection fund accounts for the operation and maintenance of the City-owned collection system for wastewater.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of all enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fixed assets and long-term liabilities

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$2,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Prior to the audit for the year ended June 30, 1982, a list of general fixed assets was not kept. At the time of that audit, an inventory of general fixed assets was taken and entered on the books. When actual costs were not available, the assets were recorded at estimated cost.

Depreciation of all exhaustible fixed assets used is charged as an expense against their operations. Accumulated depreciation is reported on the financial statements. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Water and sewer system improvements	40-50 years
Buildings	20-30 years
Machinery and equipment	5-10 years
Roads and infrastructure	15 years
Improvements other than buildings	20 years

Property Tax

Cache County assesses all taxable property other than centrally-assessed property, which is assessed through the state, by May 22 of each year. The City should adopt a final tax rate prior to June 22, which is then submitted to the state for approval. Property taxes are due on November 30. Delinquent taxes are subject to a penalty of 2% or \$10.00, whichever is greater. After January 16 of the following year, delinquent taxes and penalty bear interest at 6% above the federal discount rate from January 1 until paid.

Property taxes attach as an enforceable lien on property as they become delinquent. All unpaid taxes levied during the year become delinquent December 1 of the current year.

Property tax revenues are recognized when they become measurable and available. Amounts available include those property tax receivables expected to be collected within sixty days after year end.

Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual budgets are adopted for governmental and proprietary fund types. Encumbrance accounting is not employed by the City in its governmental funds, therefore all annual appropriations lapse at fiscal year end. Project-length financial plans are adopted for all capital project funds.

The City can make adjustments to the adopted budget through public hearings. During the fiscal year, the City made several budget adjustments through a public hearing.

Capitalized Interest

The City capitalizes interest costs and interest earned as part of the cost of constructing various buildings, water and sewer projects when material. Interest is only capitalized in proprietary activities.

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the business-type activities considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Bond Issue Costs

Bond issuance costs are deferred and amortized over the life of the bonds using the straight line method. Issuance costs are reported as deferred charges.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

- A. Explanation of certain differences between the governments fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of net assets. These differences primarily result from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

Capital related items:

When capital assets (property, plant, & equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Cost of capital assets	\$7,088,767
Accumulated depreciation	<u>(3,948,514)</u>
Total difference	<u>\$3,140,253</u>

Long term liabilities

Long term liabilities are not due and payable in the current period and therefore not reported in the fund financial statements.

Note payable	<u>\$ 66,000</u>
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B. Explanation of differences between governmental fund operating statements and the statement of net activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that bond principal is recorded as an expenditure in the governmental funds. The second element states that capital outlays are reported in the governmental funds as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net difference, the elements of this difference are as follows:

Principal payments of note	<u>\$ 16,000</u>
Capital outlay	\$ 366,255
Depreciation expense	<u>(177,520)</u>
Net difference as reported	<u>\$ 188,735</u>

Note 2: Legal Compliance - Budgets/Statutory

On or before the first scheduled council meeting in May, all agencies of the City submit requests for appropriation to the City's financial officer so that a budget may be prepared. The budget is prepared by fund, function, and activity, and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

The proposed budget is presented to the City council for review at the first scheduled meeting in May. The City council holds public hearings and may add to, subtract from, or change appropriations, but may not change the form of the budget. Any changes to the budget must be within the revenues and reserves estimated as available by the City financial officer or the revenue

estimates must be changed by an affirmative vote of a majority of the City council. Within 30 days of adoption, the final budget must be submitted to the State Auditor. If there is no increase to the certified tax rate, a final tax rate is adopted by June 22 and adoption of budgets is done similarly.

State statute requires that City officers shall not make or incur expenditures or encumbrances in excess of total appropriations for any department in the budget as adopted or subsequently amended.

Note 3: Cash

Deposits and Investments

Deposits and investments for local government are governed by the Utah Money management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the local government's exposure to various risks related to its cash management activities.

Custodial Credit Risk

Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the local government's deposits may not be recovered. The local government's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the local government to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of June 30, 2006, \$209,521 of the local government's bank balances of \$518,780 were uninsured an uncollateralized

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The local government's policy for limiting the credit risk of investments is to comply with the Money Management Act.

The local government is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

For the year ended June 30, 2006, the local governments had investments of \$1,169,688 with the PTIF. The entire balance had a maturity less than one year. The PTIF pool has not been rated.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The local government manages its exposure to declines in fair value by investment mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Note 4: Accounts receivable

Wellsville City has accounts receivable as of June 30, 2006 for general, water, and sewer funds as follows:

General fund:		
Garbage	\$ 17,353	
Court	26,556	
Communication center	2,417	
Building permits	1,373	
Other	<u>63,205</u>	
Total general fund		\$ 110,904
Enterprise funds:		
Water:		
Utility payments	<u>49,660</u>	
Total water fund		\$ 49,660
Sewer:		
Utility payments	<u>23,996</u>	
Total sewer fund		<u>23,996</u>
Total enterprise funds		<u>73,656</u>
Total accounts receivable		<u>\$ 184,560</u>

Note 5: Taxes receivable

Wellsville City has taxes receivable as of June 30, 2006, as follows:

Class "C" roads receivable	\$ 27,188
Property tax receivable	171,128
Franchise tax receivable	7,436
Energy & use tax receivable	<u>10,084</u>
Total	<u>\$ 215,836</u>

Note 6: Restricted cash

The total restricted cash on the balance sheet are comprised of the following cash, cash equivalents and investments:

General fund:	
Cemetery	\$ 52,613
First responders	2,140

Impact fees	82,130	
B & C roads	234,043	
Subdivision escrow	<u>6,630</u>	
Total general fund		\$ 377,556
Capital project funds:		
City yard and facilities		254,589
Proprietary funds:		
Water fund:		
Revenue bond sinking/reserve	136,453	
Impact fees	<u>66,951</u>	
Total water fund	<u>203,404</u>	
Sewer fund:		
Restricted bond sinking/reserve	66,178	
Impact fees	<u>89,650</u>	
Total sewer fund	<u>155,828</u>	
Total proprietary funds		<u>359,232</u>
Total restricted cash		<u>\$ 991,377</u>

Note 7: Accounts payable

Accounts payable consist of amounts incurred and due at June 30, 2006, which have not been paid as follows:

General fund:		
Accounts payable	\$ 59,314	
Payroll and benefits	53,798	
Subdivision escrow	6,630	
Deferred revenue	<u>160,000</u>	
Total general fund		\$ 279,742
Enterprise funds:		
Water fund:		
Accounts payable	\$ 2,868	
Accrued interest	<u>11,710</u>	
Total water fund		14,578

Sewer fund:

Accounts payable	13,961
Accrued interest	<u>416</u>

Total sewer fund	<u>14,377</u>
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Total enterprise funds	<u>28,955</u>
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Total accounts payable	<u>\$308,697</u>
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Note 8: Reserved fund equity

The amounts reported on the combined balance sheet identified as reserved fund balance and reserved retained earnings and designated fund balance are comprised of the following:

General fund:

Reserved roads	\$ 261,231
Reserved cemetery	52,613
Reserved first responders	2,140
Reserved impact fees	<u>82,130</u>

Total general fund	\$ 398,114
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Capital project funds:

Reserved city yard & facilities	<u>254,589</u>
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Total capital project funds	254,589
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Enterprise funds:

Water fund (retained earnings):

Reserved impact fees	66,951
Reserved sinking/reserve/bond proceeds	<u>136,453</u>
Total water fund	<u>203,404</u>

Sewer fund (retained earnings):

Reserved sinking/reserve	66,178
Reserved impact fees	<u>89,650</u>
Total sewer fund	<u>155,828</u>

Total enterprise funds	<u>359,232</u>
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Total reserved fund equity	<u>\$ 1,011,935</u>
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Note 9: General fixed assets

General fixed asset changes occurring for the year ended June 30, 2006, are as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
Land:				
Gravel pit	\$ 100,000	\$	\$	\$ 100,000
City yard	25,000			25,000
Old city yard-trade	8,000			8,000
Ball diamonds and arena	100,000			100,000
Fire station site	20,000			20,000
Walters property	900			900
Hendry property	23,833			23,833
Wellsville dam property	6,000			6,000
13 North 100 East property	30,000			30,000
Roads	72,393			72,393
Water shares	5,719	542		6,261
Higbee property	<u>128,176</u>	<u> </u>	<u> </u>	<u>128,176</u>
Total	<u>520,021</u>	<u>542</u>	<u> </u>	<u>520,563</u>
Buildings:				
City shed	10,000			10,000
Fire station	96,576			96,576
Bowery - dam site	3,500			3,500
Bowery - city center	8,634			8,634
Restroom - Wellsville Dam	28,645			28,645
City office	46,316			46,316
Restrooms		130,781		130,781
Emergency response	<u>77,056</u>	<u> </u>	<u> </u>	<u>77,056</u>
Total	<u>270,727</u>	<u>130,781</u>	<u> </u>	<u>401,508</u>
Improvements:				
Park	179,836			179,836
Tennis courts	54,275			54,275
Ballpark fences	5,088			5,088
Ballpark lights	20,073			20,073
Horse arena	13,653			13,653
Cemetery improvements	25,898			25,898
Fences	3,333			3,333
Ballpark - Wellsville Dam	27,296			27,296
Rodeo Grounds	23,138			23,138
Secondary water		26,045		26,045
City facilities	<u>14,930</u>	<u> </u>	<u> </u>	<u>14,930</u>
Total	<u>367,520</u>	<u>26,045</u>	<u> </u>	<u>393,565</u>

Furniture, fixtures and equipment:

Fire department	163,679			163,679
General government	170,058			170,058
Streets and highways	245,202	45,173	20,742	269,633
Parks and recreation	<u>92,164</u>	<u>20,000</u>		<u>112,164</u>
Total	<u>671,103</u>	<u>65,173</u>	<u>20,742</u>	<u>715,534</u>
Infrastructure	<u>3,849,914</u>	<u>1,207,683</u>		<u>5,057,597</u>
TOTAL ASSETS	5,679,285	1,430,224	20,742	7,088,767
Accumulated depreciation	<u>(3,791,736)</u>	<u>(177,520)</u>	<u>20,742</u>	<u>(3,948,514)</u>
NET ASSETS	<u>\$1,887,549</u>	<u>\$1,252,704</u>	<u>\$</u>	<u>\$3,140,253</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 31,408
Streets	95,873
Parks and recreation	33,498
Public safety	<u>16,741</u>
Total depreciation expense	<u>\$ 177,520</u>

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
<u>Water fund:</u>				
Fixed assets	\$ 5,415,496	\$ 377,480	\$ 18,457	\$ 5,774,519
Accumulated depreciation	1,969,572	184,064	18,052	2,135,584
<u>Sewer fund:</u>				
Fixed assets	2,945,723	550,341	18,456	3,477,608
Accumulated depreciation	1,321,368	77,621	18,052	1,380,937

Note 10: Capital project funds

The City has established one capital project fund to account for monies set aside for the improvements of a city yard and facilities.

Note 11: Changes in long-term debt

The following is a summary of long-term debt transactions of the City's proprietary fund types for the year ended June 30, 2006:

Bonds payable at July 1, 2005	\$ 1,166,000
Less: regular payment of principal	<u>(128,000)</u>
Bonds payable at June 30, 2006	<u>\$ 1,038,000</u>
Due within one year	<u>\$ 134,000</u>

Bonds payable at June 30, 2006 are comprised of the following individual issues:

Water:

\$282,600 general obligation bonds due to Wells Fargo Bank sinking fund in monthly installments, which includes interest at 7.25%. Interest payments are made from the sinking fund on December 1 and June 1 each year, with principal payments made on June 1 each year. The principal and interest will be completely retired on June 1, 2008

\$ 57,148

\$500,000 water revenue bonds due to Utah Department of Environmental Quality in annual principal installments ranging from \$20,000 to \$31,000 plus interest at 2.45%. Obligation will be completely retired on January 1, 2025.

480,000

\$670,000 water revenue bonds due to water resources in varying annual installments which includes interest at 3.0%. Principal amounts vary from \$21,000 to \$70,000. These annual payments are accumulated through monthly installments of \$2,302 to a sinking fund established at Zion's Bank. The obligation will be completely retired on January 1, 2013.

382,000

Total water bonds \$ 919,148

Sewer:

\$167,400 general obligation bonds due to Wells Fargo Bank sinking fund in monthly installments, which includes interest at 7.25%. Interest payments are made from the sinking fund on December 1

and June 1 each year, with principal payments made on June 1 each year. The principal and interest will be completely retired on June 1, 2008.

33,852

\$300,000 sewer revenue bonds due to water resources in varying annual installments which include interest at 3%. Principal amounts vary from \$21,000 to \$29,000, with principal and interest due on June 1 each year. The principal and interest will be completely retired on June 1, 2009.

85,000

Total sewer bonds

118,852

Total enterprise bonds

\$ 1,038,000

The following is a summary of debt service requirements to maturity:

<u>Year Ending June 30</u>	<u>Bonds Outstanding</u>
2007	\$ 165,878
2008	165,073
2009	134,021
2010	104,692
2011	104,663
2012 - 2016	261,482
2017 - 2021	158,913
2022 - 2025	<u>126,442</u>
Total	1,221,164
Less interest	<u>(183,164)</u>
Outstanding principal	<u>\$ 1,038,000</u>

The following is a summary of long-term note payable transactions of the City's governmental fund types for the year ended June 30, 2006:

Notes payable at July 1, 2005	\$ 82,000
Less: regular payment of principal	<u>(16,000)</u>
Notes payable at June 30, 2006	<u>\$ 66,000</u>

Notes payable at June 30, 2006 are comprised of the following individual issues:

General:

Note payable for land from Edward M. Higbee and M. June Higbee with interest at 5%.

Interest and principal payments are made on January 15 each year. The principal and interest will be completely retired on January 15, 2014.

\$64,000

Note payable for land from Bevan J. Higbee and Clarice J. Higbee with interest at 5%.

Interest and principal payments are made on January 15 each year. The principal and interest will be completely retired on January 15, 2007.

2,000

Total general fund notes payable

\$66,000

The following is a summary of debt service requirements to maturity:

<u>Year Ending June 30</u>	<u>Bonds Outstanding</u>
2007	\$ 13,300
2008	10,800
2009	10,400
2010	10,000
2011	9,600
2012 - 2014	<u>26,400</u>
Total	80,500
Less interest	<u>(14,500)</u>
Outstanding principal	<u>\$ 66,000</u>

Note 12: Insurance and bond coverage

As of June 30, 2006, Wellsville City has insurance and bond coverage with expiration dates and coverage limits as follows:

<u>Description</u>	<u>Issuer/Policy</u>	<u>Limits</u>	<u>Expiration Date</u>
Commercial general liability	Utah Local Government Trust	\$ 2,000,000	Continuous
Public Officials errors and omissions Auto liability	14770-GL64-2004		

Building and property	Unigard PX809764	\$3,824,008	7-01-06
Automobiles	Unigard BA900004	\$ 164,000	7-01-06

<u>Description</u>	<u>Issuer</u>	<u>Policy Number</u>	<u>Limits</u>	<u>Expiration Date</u>
Recorder	Old Republic	UPO980237	\$50,000	6-01-07
Treasurer	Old Republic	UPO1047246	50,000	6-01-07
Justice	Old Republic	UPX1117361	10,000	1-09-07
Manager	Old Republic	UPO998930	10,000	2-01-07
Recorder	Old Republic	UPX1054100	16,500	9-09-07
Treasurer	Old Republic	UP01054100	30,000	9-09-07
Recorder - W.R.	Old Republic	UPO1054191	16,500	9-09-07
Treasurer-W.R.	Old Republic	UPX1054191	16,500	9-09-07
Public Officials	Old Republic	UPS1117361	10,000	1-09-07
Maleesa Cooper- Notary	Allied	BD0000131911	5,000	5-09-07
Treasurer	CNA Surety	22161170	146,000	12-20-06
Recorder	CNA Surety	22161170	146,000	12-20-06

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. No liabilities have been included in the current financial statements since none of the risk situations have occurred in the City.

Note 13: Utility users and rates

The Wellsville City water utility and sewer funds service both residential and commercial users. As of June 30, 2006, there were the following users in each category:

	<u>Water</u>	<u>Sewer</u>
Residential	966	847
Commercial	<u>15</u>	<u>2</u>
Total	<u>981</u>	<u>849</u>

	<u>City</u>	<u>County</u>
Water rates:		
3/4"-1" Standard monthly service	\$ 26.00	\$ 52.00
Excess over 20,000-50,000	\$.50	\$ 1.00
Excess over 50,00 gallons	\$.70	\$ 1.40

first 20,000 gallons
per 1,000 gallons
per 1,000 gallons

1 1/2"	Standard monthly service	\$ 52.00	\$ N/A	first 20,000 gallons
2"	Standard monthly service	\$ 90.00	\$ N/A	first 20,000 gallons
3"	Standard monthly service	\$188.00	\$ N/A	first 20,000 gallons 4"
	Standard monthly service	\$285.00	\$ N/A	first 20,000 gallons 5"
	Standard monthly service	\$381.00	\$ N/A	first 20,000 gallons 6"
	Standard monthly service	\$478.00	\$ N/A	first 20,000 gallons 7"
	Standard monthly service	\$575.00	\$ N/A	first 20,000 gallons 8"
	Standard monthly service	\$861.00	\$ N/A	first 20,000 gallons

Garbage rates:

60 gallon residential	\$ 8.90	
90 gallon residential service	\$ 12.75	
Multi-unit complex	\$ 12.75	per unit
Standard commercial	*	*

* Determined by service area according to volume and number of pickups.

Sewer rates:

Standard monthly service	\$20.50
Multi-unit complex	\$20.50
Standard commercial	\$20.50
Regulated commercial	*

* Determined by Wellsville City according to agreement

Note 14: Defined benefit pension plan

Plan Description. Wellsville City (the City) contributes to the Local Governmental Noncontributory Retirement System cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living allowances, established and amended by the state legislature, and death benefits to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and Plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. Plan members in the Local Governmental Noncontributory Retirement System are required to contribute 11.09% of their annual covered salary. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The City contributions to the Noncontributory Retirement System for June 30, 2006, 2005 and 2004 were \$18,741, \$18,761, and \$15,564, respectively. The contributions were equal to the required contributions for each year.

Note 15: Comparative fund information

The following is comparative information for the water utility and sewer funds:

<u>Water Utility Fund</u>					
	June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002
Revenue:					
Services	\$ 422,630	\$ 393,528	\$ 347,103	\$ 320,782	\$ 310,454
Connection fees	37,025	11,650	18,675	15,950	5,800
Interest	10,533	4,489	3,978	8,082	6,540
Other	3,711	3,309	967	911	16,305
Impact fees	46,354	18,865	33,420	23,716	8,624
Contributed capital	362,210	-	198,117	-	-
Total revenues	882,463	431,841	602,260	369,441	347,723
Expenses:					
Salaries/benefits	110,215	101,632	96,452	96,903	86,869
Supplies/materials	32,039	64,159	42,500	20,724	28,666
Other	46,311	74,582	62,637	35,795	108,103
Depreciation	184,064	129,858	124,268	105,524	104,639
Interest	29,917	31,077	28,828	27,932	30,712
Amortization expense	1,954	1,953	1,953	1,372	1,372
Total expenses	404,500	403,261	356,638	288,250	360,361
Operating transfer in	-	-	-	-	250,000
NET INCOME (LOSS)	\$ 477,963	\$ 28,580	\$ 245,622	\$ 81,191	\$ 237,362
<u>Sewer Fund</u>					
	June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002
Revenue:					
Services	\$ 216,243	\$ 211,226	\$ 201,211	\$ 205,898	\$ 201,364
Connection fees	17,200	6,000	7,600	8,000	4,000
Interest	16,583	9,137	4,084	2,949	3,653
Other	2,910	8,940	2,573	2,554	2,910
Impact fees	27,282	8,889	10,905	10,781	3,415
Contributed capital	479,783	-	215,262	-	-
Total revenues	760,001	244,192	441,635	230,182	215,342
Expenses:					
Salaries/benefits	84,263	74,947	71,735	64,592	56,534
Supplies/materials	33,478	12,714	13,245	16,167	9,649
Other	35,387	36,965	18,496	25,706	19,255
Depreciation	77,621	67,881	61,197	60,602	59,507
Interest	6,759	8,807	12,710	12,277	13,290
Amortization expense	1,247	1,247	1,247	870	869
Total expenses	238,755	202,561	178,630	180,214	159,104
NET INCOME	\$ 521,246	\$ 41,631	\$ 263,005	\$ 49,968	\$ 56,238

Note 16: Working Capital

Net working capital for the water and sewer funds is calculated as follows:

	<u>Water Fund</u>	<u>Sewer Fund</u>
Current assets:		
Cash	\$ 399,869	\$ 321,516
Receivables	49,660	23,996
Less current liabilities:		
Accounts payable	14,578	14,377
Current portion of long-term debt	<u>89,632</u>	<u>44,368</u>
Net working capital	<u>\$ 379,572</u>	<u>\$ 286,767</u>

Note 17: Memorandum Totals

Total columns on the financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

SUPPLEMENTAL SECTION

**CITY OF WELLSVILLE
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2006
With Comparative Totals for 2005**

		Memorandum Totals	
		Total Nonmajor Governmental Funds 2006	Total Nonmajor Governmental Funds 2005
ASSETS	Capital Project City Yard		
Cash - restricted	\$ 254,589	\$ 254,589	\$ 207,509
Total assets	<u>\$ 254,589</u>	<u>\$ 254,589</u>	<u>\$ 207,509</u>
Fund Balance:			
Reserved for city yard & facilities	\$ 254,589	\$ 254,589	\$ 207,509
Total fund balance	<u>254,589</u>	<u>254,589</u>	<u>207,509</u>
Total liabilities and fund balance	<u>\$ 254,589</u>	<u>\$ 254,589</u>	<u>\$ 207,509</u>

The notes to the financial statements are an integral part of this statement.

CITY OF WELLSVILLE
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006
With Comparative Totals for 2005

		Memorandum Totals	
		Total Nonmajor Governmental Funds 2006	Total Nonmajor Governmental Funds 2005
	Capital Project General		
Revenues:			
Investment income	\$ 9,080	\$ 9,080	\$ 3,533
Total revenues	9,080	9,080	3,533
Expenditures:			
Parks, recreation & public property	-	-	-
Total expenditures	-	-	-
Excess (deficiency) of revenues over expenditures	9,080	9,080	3,533
Other financing sources (uses):			
Transfers in	38,000	38,000	60,000
Net change in fund balances	47,080	47,080	63,533
Fund balances, beginning of year	207,509	207,509	143,976
Fund balances, end of year	\$ 254,589	\$ 254,589	\$ 207,509

The notes to the financial statements are an integral part of this statement.

CITY OF WELLSVILLE
SUPPLEMENTAL SCHEDULE
SCHEDULE OF IMPACT FEES

	2000	2001	2002	2003	2004	2005	2006
Beginning Balance:							
Impact Fees - Fire/EMS	\$ 3,969	\$ 5,655	\$ 564	\$ -	\$ 2,078	\$ 4,468	\$ 6,099
Impact Fees - Park	81,920	44,206	78,558	102,391	133,852	147,532	165,752
Impact Fees - Water	43,812	74,486	17,219	26,458	-	-	19,086
Impact Fees - Sewer	11,102	17,289	22,289	26,393	37,766	49,233	59,414
Additions:							
Impact Fees - Fire/EMS	1,425	1,504	1,034	2,068	2,350	1,504	4,136
Impact Fees - Park	25,220	31,040	21,340	42,680	48,500	31,040	85,360
Impact Fees - Water	26,950	17,248	8,624	2,371	33,420	18,865	46,354
Impact Fees - Sewer	5,297	3,852	3,415	10,781	10,905	8,889	27,282
Interest:							
Impact Fees - Fire/EMS	261	258	24	10	40	127	324
Impact Fees - Park	2,743	3,312	2,493	2,081	2,110	3,743	4,793
Impact Fees - Water	3,724	4,556	615	178	53	221	1,511
Impact Fees - Sewer	890	1,148	689	592	562	1,292	2,954
Deletions:							
Impact Fees - Fire/EMS	-	(6,853)	(1,622)	-	-	-	-
Impact Fees - Park	(65,677)	-	-	(13,300)	(36,930)	(16,563)	(184,334)
Impact Fees - Water	-	(79,071)	-	(29,007)	(33,473)	-	-
Impact Fees - Sewer	-	-	-	-	-	-	-
Ending Balance:							
Impact Fees - Fire/EMS	5,655	564	-	2,078	4,468	6,099	10,559
Impact Fees - Park	44,206	78,558	102,391	133,852	147,532	165,752	171,571
Impact Fees - Water	74,486	17,219	26,458	-	-	19,086	66,951
Impact Fees - Sewer	17,289	22,289	26,393	37,766	49,233	59,414	89,650
	<u>\$ 141,636</u>	<u>\$ 118,630</u>	<u>\$ 155,242</u>	<u>\$ 173,696</u>	<u>\$ 201,233</u>	<u>\$ 250,351</u>	<u>\$ 238,731</u>

Impact fees have been used for the following capital projects: new water lines, new road improvements, sewer system improvements, new parks, and new fire and EMS trucks. Future expenses for impact fees include new parks, sewer system improvements, new roads, and water system improvements. Sewer impact fees were authorized in writing to extend over six years for the purchase of land in fiscal year 2007.

The notes to the financial statements are an integral part of this statement.



Peterson
Allred
Jackson

▪ Certified Public Accountants
Business Consultants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and City Council
City of Wellsville
Wellsville, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wellsville, Utah (the City) as of and for the year ended June 30, 2006, which collectively comprise the City of Wellsville's basic financial statements and have issued our report thereon dated October 24, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and

material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated October 24, 2006.

This report is intended for the information of the City Council and management, and certain legislative bodies and is not intended to be and should not be used by anyone other than these specified parties.

Peterson Allred Jackson

October 24, 2006



Peterson
Allred
Jackson

▪ Certified Public Accountants
Business Consultants

INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

Honorable Mayor and City Council
City of Wellsville
Wellsville, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wellsville, Utah (the City), for the year ended June 30, 2006, and have issued our report thereon dated October 24, 2006. As part of our audit, we have audited the City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special test and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major State assistance programs from the State of Utah:

C Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

The City also received the following nonmajor grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the City of Wellsville's financial statements).

Sidewalk Construction (Department of Transportation)

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Compliance Audit Guide, including:

Public Debt	Justice Courts
Cash Management	B & C Road Funds
Purchasing Requirements	Liquor Law Enforcement
Budgetary Compliance	Other General Issues
Truth in Taxation and	Impact fees
Property Tax Limitations	

The management of the City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the City of Wellsville, Utah, complied, in all material respects, with the general compliance requirements identified above, and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

Peterson Allred Jackson

October 24, 2006



Peterson
Allred
Jackson

▪ Certified Public Accountants
Business Consultants

October 24, 2006

Honorable Mayor and City Council
City of Wellsville
Wellsville, Utah

Dear Mayor Maughan:

In planning and performing our audit of the financial statements of Wellsville, Utah (the City), for the year ended June 30, 2006, we developed the following recommendations concerning certain matters related to internal control structure (other than "reportable conditions") and certain administrative and operating matters. These recommendations resulted from our observations made in connection with our audit of the City's financial statements for the year ended June 30, 2006, and are not based on a special study. Our comments and principal recommendations are summarized below.

State Compliance Issues:

PRIOR YEAR FINDINGS

Findings: *Unreserved general fund balance.* The general fund's unreserved fund balance is in excess of the amount permitted by state law. The requirement of assessing compliance in this area indicates the general fund unreserved fund balance is in excess by approximately \$44,000.

Recommendations: We recommend that the City make this amount available for appropriation in the current fiscal year. Caution should be taken, however, as a large portion of property taxes are paid to the City in December and January of each year to be utilized throughout the year. Allowances should be made to insure adequate funding for the final six months prior to the next bulk property tax payment.

Management response: Despite efforts to lower the general unreserved fund balance including a \$60,000 transfer to capital projects fund, the unreserved balance was still in excess. The City will continue to strive to keep the general unreserved fund balance within the state requirements.

Status: The general unreserved fund balance was in excess by approximately \$136,000. See current year finding.

Finding: *Justice court.* The City did not remit all of their monthly reports to the State by the 10th of each month.

Recommendation: Prepare all applicable reports on a timely basis to meet the required deadline.

Management response: The City is in the process of training a new court clerk and will make efforts to get the reports and payments into the state on a timely basis.

Status: The City did not submit all reports by the 10th of the month. See current year finding.

CURRENT YEAR FINDINGS

Findings: *Unreserved general fund balance.* The general fund's unreserved fund balance is in excess of the amount permitted by state law. The requirement of assessing compliance in this area indicates the general fund unreserved fund balance is in excess by approximately \$136,000. This is a repeat finding.

Recommendations: We recommend that the City make this amount available for appropriation in the current fiscal year. Caution should be taken, however, as a large portion of property taxes are paid to the City in December and January of each year to be utilized throughout the year. Allowances should be made to insure adequate funding for the final six months prior to the next bulk property tax payment.

Management response: The excess fund balance will be transferred to the capital projects fund or used in the current year.

Finding: *Justice court.* The City did not remit all of their monthly reports to the State by the 10th of each month. This is a repeat finding.

Recommendation: Prepare all applicable reports on a timely basis to meet the required deadline.

Management response: The new court clerk is now trained and will make an additional effort to get the reports submitted by the 10th of the month.

Finding: *Payroll files.* During our review of the personnel files for payroll compliance we became aware that some files were missing I-9's and W-4's.

Recommendation: We recommend that the City update all personnel files to incorporate all needed payroll information.

Management response: All documentation will be updated in the current year.

In conclusion, we wish to recognize Don Hartle and Maleesa Cooper for the excellent services provided to Wellsville City. They have been most cooperative in assisting us in the performance of the audit for the 2006 fiscal year. The performance of the Wellsville City annual fiscal year audit has been an enjoyable experience for us and we would like to thank the City for the opportunity to serve as independent auditors.

Very truly yours,

PETERSON ALLRED JACKSON

Alan D. Allred

Alan D. Allred, CPA

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East Office Bldg., Suite E310
Salt Lake City, UT 84114

Utah Department of Transportation
4501 South 2700 West
Salt Lake City, UT 84119

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Division of Drinking Water
2110 State Office Building
Salt Lake City, UT 84114

Wells Fargo
299 South Main, 12th Floor
Attn: Laurel
Salt Lake City, UT 84111

Utah Board of Water Resources
2110 State Office Building
Salt Lake City, UT 84114



WELLSVILLE CITY CORPORATION

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Wellsville, Utah 84339
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MAYOR

Ruth P. Maughan

CITY COUNCIL

Thomas G. Bailey

Gary Bates

Ron Case

Lynn P. Cooper

Marcene Parker

DON HARTLE

City Manager

City Recorder

LEESA M. COOPER

City Treasurer

April 2, 2007

Office of the State Auditor
MacRay A. Curtis, CPA
Utah State Capitol Complex
East Office Building, Suite E310
P. O. Box 142310
Salt Lake City, UT 84114-2310

Dear Mr. MacRay:

We received your letter dated March 28, 2007, which stated that Wellsville City is not in compliance with the fund balance limitations.

Our City Manager/Recorder, Don Hartle, and I have discussed this matter in great length, and he has begun the process to make sure that we do not exceed the limitation in 2006/2007.

We have discussed this matter with our independent Certified Public Accountants, Peterson, Allred & Jackson, to assist the City of Wellsville in resolving this violation.

If you have any questions, please feel free to call.

Sincerely,

Ruth P. Maughan
Mayor